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*19 January 78*

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ONE ARTICLE FROM OER'S ECONOMIC INTELLIGENCE WEEKLY REVIEW  
ENDING 19 JANUARY 1978. REQUEST ARTICLE BE PASSED TO AMBASSADOR,  
DCM, ECONOMIC SECTION AND OTHER WORKING LEVEL STATE OFFICERS.  
FOR PARIS: PLEASE PASS TO US MISSION OECD.  
PLEASE PASS TO US MISSION TO EC.  
PLEASE PASS TO AMBASSADOR VANDEN HEUVEL, STR REP.

NORTH-SOUTH DIALOGUE: FOCUS SHIFTS TO DEBT BELIEF.

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1. LDC PROPOSALS FOR RADICAL MEASURES TO EASE THEIR  
FOREIGN DEBT BURDEN WILL BE CENTER STAGE IN THE NORTH-SOUTH  
DIALOGUE OVER THE NEXT SEVERAL MONTHS. THE DEBT ISSUE WILL  
COME TO A HEAD AT THE 6-10 MARCH MINISTERIAL MEETING OF THE  
UNCTAD TRADE AND DEVELOPMENT BOARD IN GENEVA. MOST WESTERN  
AID DONORS--IN PARTICULAR THE UNITED STATES--VIEW THE MEETING  
AS A MEANS TO REVIEW THE DEBT SITUATION; MANY LDCS, ON THE  
OTHER HAND, SEE IT AS A CHANCE TO NEGOTIATE INCREASES IN  
RESOURCE TRANSFERS FROM THE DEVELOPED WORLD. PROSPECTS FOR  
A CONVERGENCE OF VIEWS BETWEEN THE DEVELOPED AND THE  
DEVELOPING COUNTRIES ARE REMOTE.

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2. AGREEMENT AMONG THE LDCS THEMSELVES ON ANY  
PARTICULAR PROPOSAL--OTHER THAN THEIR COLLECTIVE MAXIMUM  
DEMANDS--WILL BE INHIBITED BY WIDELY DIFFERING INTERESTS IN  
VARIOUS FACETS OF DEBT RELIEF. THIS WILL NOT, HOWEVER,  
STILL THEIR RHETORIC OR CAUSE ANY EXPLOITABLE SPLIT IN THEIR  
UNITY. THE MAIN PROSPECTIVE GAINERS FROM A GENERAL  
CANCELLATION OF BILATERAL DEBTS--PARTICULARLY THE SOUTH  
ASIAN COUNTRIES--CAN BE EXPECTED TO WORK BEHIND THE SCENES  
TO ERODE UNITY AMONG THE DEVELOPED COUNTRIES IN THE HOPE OF  
SECURING NEW CONCESSIONS. IN PARTICULAR, THEY ARE LIKELY  
TO PUSH FOR ALL WESTERN DONORS TO FOLLOW THE EXAMPLE OF THE  
FOUR COUNTRIES THAT RECENTLY CANCELED SOME BILATERAL DEBTS  
FOR THE POOREST LDCS.

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(ASTRISK THROUGHOUT THIS ARTICLE: THREE CATEGORIES OF DEBT  
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ARE DISCUSSED. BILATERAL DEBTS ARE THOSE OWED BY DEVELOPING COUNTRIES TO GOVERNMENTS. MULTILATERAL DEBTS ARE THOSE OWED TO INTERNATIONAL INSTITUTIONS SUCH AS THE IBRD OR THE ASIAN DEVELOPMENT BANK BUT EXCLUDING THE IMF. PRIVATE DEBTS ARE THOSE OWED TO PRIVATE OR COMMERCIAL LENDERS.)

3. THE INDETERMINATE CONCLUSION OF DEBT DISCUSSIONS AT LAST YEAR'S CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION (CIEC) AND THE STALEMATE OF THE COMMON FUND NEGOTIATIONS WILL TEND TO HEIGHTEN THE CONCERN OF THE LDCS (AND A FEW DEVELOPED COUNTRIES) THAT TANGIBLE BENEFITS MERGE FROM THE DEBT DISCUSSIONS.

#### BACKGROUND.

4. GENERALIZED DEBT RELIEF IS A RELATIVE NEWCOMER TO THE LIST OF THIRD WORLD ECONOMIC DEMANDS. EVEN THOUGH DEBT WAS DISCUSSED AT THE FIRST UNCTAD MEETING IN 1964, IT WAS SUBSUMED UNDER INVISIBLE TRADE. RIGHT UP TO THE EARLY 1970S, THE NOTION OF GENERALIZED RELIEF WAS OVERSHADOWED BY PROVISIONS FOR CASE-BY-CASE REVIEWS BY CREDITOR CLUBS OR, FOR INDIA AND PAKISTAN, AID CONSORTIA. THE EXPERIENCE GAINED FROM HANDLING INDIVIDUAL DEBT PROBLEMS PROVIDED PRECEDENTS AND GUIDELINES FOR SOME 40 MAJOR RESCHEDULING EXERCISES THAT TOOK PLACE AFTER THE MID-1950S.

5. THE OIL PRICE INCREASES OF 1973/74 WERE, FROM THE LDC PERSPECTIVE, INSTRUMENTAL IN ELEVATING DEBT RELIEF FROM AN APERIODIC PROBLEM TO A CONDITION TO BE "SOLVED" WITH GENERAL DEVICES. AS A RESULT OF BALLOONING IMPORT BILLS AND DAMPENING EXPORTS, THE MEDIUM- AND LONG-TERM DEBT OF THE NON-OPEC LDCS SOARED FROM \$70 BILLION TO \$75 BILLION AT YEAREND 1973 TO AN ESTIMATED \$160 BILLION AT YEAREND 1977. ASTRIK MEANWHILE, MANY OF THE SAME COUNTRIES SOUGHT TO USE THE ENHANCED OPEC LEVERAGE TO PROMOTE DEBT RELIEF AS A VEHICLE FOR GREATER RESOURCE TRANSFERS. FOR THEIR PART, THE OPEC COUNTRIES WERE MORE THAN WILLING TO INCLUDE ON THE AGENDA A TOPIC THAT STRESSED THE "STRANGLEHOLD" OF THE NORTH OVER THE SOUTH, THEREBY DEFLECTING CRITICISM OF HIGHER OIL PRICES.

(ASTERISK FOR A DETAILED DISCUSSION OF TRENDS IN THE LDC DEBT SITUATION, SEE THE 22 DECEMBER 1977 ECONOMIC INTELLIGENCE WEEKLY REVIEW ARTICLE "NON-OPEC LDCS: PRIVATE CREDITS ACCOUNT FOR MASSIVE DEBT INCREASE SINCE 1973," AND DER'S FORTHCOMING REPORT ON THE NON-OPEC LDCS: EXTERNAL DEBT PROBLEMS

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AND PROSPECTS.)

6. ACCORDINGLY, DEBT WAS ONE OF THE LDC ECONOMIC CONCERNS THAT OPEC COUNTRIES DEMANDED BE ENROLLED AT CIEC AS A PRECONDITION FOR DISCUSSING THE INTERNATIONAL ENERGY SITUATION WITH THE INDUSTRIAL NATIONS. WHILE THESE DISCUSSIONS WERE TAKING PLACE IN PARIS, UNCTAD IV (MAY-JUNE 1976) CONVENED IN NAIROBI. PROGRESS ON THE DEBT RELIEF ISSUE PROVED IMPOSSIBLE THERE, HOWEVER, AND, IN THE SHORTEST RESOLUTION OF THE CONFERENCE, THE MATTER WAS REFERRED BACK TO PARIS. THE 19 LDCS THAT REPRESENTED THE DEVELOPING WORLD AT CIEC HAD NOT BEEN GIVEN MUCH NEGOTIATING LEEWAY ON DEBT. AFTER 18 MONTHS OF CONSIDERATION, THE TWO SIDES WERE STILL FAR APART ON THIS ISSUE WHEN CIEC ENDED IN JUNE 1977.

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7. WITH THE FAILURE OF CIEC TO REACH AN AGREEMENT, DEBT RELIEF JOINED THE COMMON FUND AS A KEY UNRESOLVED ISSUE IN THE NORTH-SOUTH DIALOGUE. AFTER CIEC, DEBT DISCUSSIONS AGAIN FELL TO UNCTAD; DEBT RELIEF IS NOW THE MAIN AGENDA ITEM FOR A SENIOR OFFICIALS' MEETING, 23-27 JANUARY, TO PREPARE FOR THE MARCH MINISTERIAL SESSION OF THE TRADE AND DEVELOPMENT BOARD.

#### LDC DEBT THEOLOGY.

8. OVER THE LAST THREE YEARS, THE LDCS HAVE STRUGGLED THROUGH THEIR UN CAUCUS--THE GROUP OF 77--TO FIND A SET OF DEBT PROPOSALS COMFORTABLE FOR ALL MEMBERS. FOUR THEMES HAVE GUIDED THESE EFFORTS. FIRST IS THE CONTENTION THAT THE SCALE OF FOREIGN DEBTS IS A PROBLEM COMMON TO ALL DEVELOPING COUNTRIES BECAUSE ALL HAVE BEEN ADVERSELY AFFECTED BY (A) A DETERIORATION IN TERMS OF TRADE, (B) INADEQUATE AID FLOWS FROM THE DEVELOPED COUNTRIES, AND (C) RESTRICTED ACCESS TO INTERNATIONAL CAPITAL MARKETS. SECONDLY, THE LDCS CONTEND THAT DONOR COUNTRIES SHOULD PROVIDE SUBSTANTIAL NEW UNTIED AID FLOWS THROUGH DEBT RELIEF. THIRD IS THE BELIEF THAT EXISTING CASE-BY-CASE PROCEDURES ARE DEMEANING TO DEVELOPING COUNTRIES, MAKING THEM APPEAR AS BEGGARS. FINALLY, WHILE GROUP OF 77 PROPOSALS MAKE ALL LDCS ELIGIBLE FOR DEBT RELIEF TO HELP ENSURE UNITY, PHRASES LIKE "FOR THOSE INTERESTED COUNTRIES" HAVE CONSISTENTLY BEEN INSERTED. THIS ALLOWS INDIVIDUAL COUNTRIES TO DISSOCIATE THEMSELVES FROM GROUP OF 77 PROPOSALS IF THEY FEAR THAT PUBLICITY ABOUT LDC DEMANDS COULD DAMAGE THEIR INTERNATIONAL CREDIT RATING.

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9. THE DEVELOPED COUNTRIES USUALLY COUNTER GROUP OF 77 PROPOSALS FOR GENERAL SOLUTIONS WITH THE ARGUMENT THAT WHEN LDC DEBT PROBLEMS ARISE THEY NEED TO BE REVIEWED IN THE LARGER CONTEXT OF A COUNTRY'S OVERALL BALANCE OF PAYMENTS AND LONG TERM DEVELOPMENT NEEDS. ANY RELIEF MEASURES CAN THEN BE TAILORED TO THE SPECIFIC NEEDS OF THE DEBTOR COUNTRY. FURTHERMORE, THE DEVELOPED COUNTRIES HAVE ARGUED THAT, WHILE ADJUSTMENTS COULD BE MADE IN THE CREDITOR CLUB ARRANGEMENTS TO IMPROVE THEIR OPERATIONS ON A CASE-BY-CASE BASIS (THE POSITION TAKEN IN THE US/EC PROPOSALS AT CIEC), THEY WERE UNWILLING TO PROVIDE GENERALIZED DEBT WRITEOFFS.

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10. WITHIN THIS BROAD STANCE, INDIVIDUAL DEVELOPED COUNTRIES HAVE HELD CONSIDERABLY DIVERGENT VIEWS. THE SCANDINAVIAN COUNTRIES AND THE DUTCH HAVE FELT THAT WRITEOFFS OF BILATERAL DEBTS FOR THE POOREST LDCS WOULD BE RELATIVELY INEXPENSIVE, CONSISTENT WITH THE CURRENT EFFORT TO PROVIDE GRANTS RATHER THAN LOANS TO THIS GROUP, AND WOULD BE A CLEAR SIGN OF GOODWILL TOWARD THE THIRD WORLD. INDEED, FOUR DONORS--SWEDEN, FINLAND, THE NETHERLANDS, AND CANADA--RECENTLY CANCELED BILATERAL DEBTS TO SOME OF THE POOREST LDCS. THESE FOUR COUNTRIES TOGETHER HOLD ONE-FIFTH OF THE TOTAL BILATERAL DEBT OUTSTANDING; THEY CANCELED ONLY PART OF THAT, ABOUT \$500 MILLION AT FACE VALUE.

11. MAJOR DONORS--THE UNITED STATES, WEST GERMANY, AND JAPAN, WITH AN ESTIMATED TWO-THIRDS OF BILATERAL DEBT--CONTINUE TO RESIST CANCELLATIONS. THEY ARGUE THAT DEBT RELIEF IS AN INEFFICIENT TONIC FOR BROADER TRADE AND PAYMENTS PROBLEMS, WHICH REQUIRE MORE DIRECT TREATMENT. AS A RESULT, POLICYMAKERS IN WEST GERMANY AND JAPAN RESIST SCHEMES THAT ENTAIL LARGE TRANSFERS WITHOUT GIVING DONORS SOME VOICE IN THEIR END USE. EVEN SO, THEY HAVE SOMEWHAT MORE FLEXIBILITY TO GRANT BILATERAL DEBT RELIEF THAN THE UNITED STATES, WHICH IS PRECLUDED BY LEGAL CONSTRAINTS AND THE POWERS OF CONGRESS FROM MAKING EXTENSIVE DEBT WRITEOFFS.

#### GROUP OF 77 STRATEGY AND PROPOSALS.

12. THE LDCS TEND TO VIEW THE MARCH MINISTERIAL AS A NEGOTIATING SESSION. MANY BELIEVE THAT HIGH-RANKING REPRESENTATIVES OF DEVELOPED COUNTRIES WILL HAVE THE POLITICAL AUTHORITY TO MAKE MAJOR ECONOMIC CONCESSIONS. THERE IS STILL NO CLEAR EVIDENCE OF WHAT NEW PROPOSALS THE GROUP OF 77 MAY INTRODUCE AT OR BEFORE THE MARCH MEETING. TO JUDGE FROM PAST PERFORMANCE, IN

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ACTIVISTS AMONG THE LDCS TO RELY ON THE POLICY STATEMENT OF THE MANILA DECLARATION, APPROVED BY GROUP OF 77 MINISTERS IN JANUARY 1976. THE SECTION ON DEBT SOUGHT VARIOUS ACTIONS ON BOTH BILATERAL AND MULTILATERAL DEBTS AND A RESCHEDULING OF PRIVATE DEBTS.

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BILATERAL DEBT.

13. WITH RESPECT TO BILATERAL DEBTS, THE MANILA DECLARATION PROPOSED THAT:

--DEBTS OF (A) LEAST DEVELOPED COUNTRIES (LLDCS) AND (B) LANDLOCKED AND (C) ISLAND DEVELOPING COUNTRIES SHOULD BE CANCELED.

--DEBTS OF THE MOST SERIOUSLY AFFECTED COUNTRIES (MSAS) SHOULD BE CANCELED OR, AT A MINIMUM, SERVICE PAYMENTS SHOULD BE WAIVED UNTIL THE COUNTRY IS NO LONGER DESIGNATED AN MSA BY THE UNITED NATIONS.

--DEBTS OF ALL OTHER LDCS SHOULD BE RESCHEDULED BY ANY OF SEVERAL MEANS IF THE COUNTRY DESIRES RELIEF.

THE LACK OF SPECIFIC DETAILS NEEDED TO CARRY OUT THESE PROPOSALS EXEMPLIFIES THE USUAL LDC TACTIC OF SEEKING AGREEMENT ON PRINCIPLES BEFORE WORRYING ABOUT ANY ASPECT OF IMPLEMENTATION.

14. THE LDCS BELIEVE THAT PROSPECTS ARE BRIGHTEST FOR BILATERAL DEBT RELIEF, EVEN THOUGH THEY ARE UNLIKELY TO ABANDON POSITIONS ON MULTILATERAL AND PRIVATE DEBTS. BILATERAL DEBT IS THE ONLY FORM OF DEBT DIRECTLY UNDER DONOR COUNTRY GOVERNMENT CONTROL. THE DISTRIBUTION OF TOTAL DEBT AMONG LDCS IS SUCH THAT, IF THE BILATERAL DEBTS OF THE LLDCS AND LANDLOCKED, ISLAND, AND MSA COUNTRIES WERE CANCELED, COUNTRIES IN SOUTH ASIA AND AFRICA WOULD RECEIVE FAR AND AWAY THE MOST NEAR-TERM RELIEF.

15. SEVERAL ANOMALIES ARISE WHEN SPECIFIC COUNTRY SITUATIONS ARE EXAMINED UNDER THESE PROPOSALS. INDONESIA, WHICH IS AN OPEC MEMBER, AND SEVERAL CARIBBEAN COUNTRIES WOULD RECEIVE RELIEF SIMPLY BECAUSE OF THEIR ISLAND STATUS. ON THE OTHER HAND, PERU AND ZAIRE, BOTH UNDERGOING SERIOUS BALANCE-OF-PAYMENTS PROBLEMS, WOULD NOT AUTOMATICALLY RECEIVE BILATERAL DEBT RELIEF BECAUSE NEITHER IS INCLUDED IN ANY OF THE DISADVANTAGED CATEGORIES.

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16. SIMPLY IN TERMS OF DOLLAR AMOUNTS INVOLVED, INDIA WOULD BE THE OVERWHELMING GAINER WITH ITS ESTIMATED \$9.2 BILLION IN OUTSTANDING BILATERAL DEBT. OTHER COUNTRIES WITH LARGE AMOUNTS OF BILATERAL DEBT, ESTIMATED YEAREND 1977, ARE PAKISTAN (\$4.8 BILLION), EGYPT (\$4.5 BILLION), AND BANGLADESH (\$1.6 BILLION). NOT SURPRISINGLY, BOTH INDIA AND PAKISTAN HAVE IDENTIFIED DEBT RELIEF AS THE PREMIER ISSUE IN THE NORTH-SOUTH DIALOGUE.

#### MULTILATERAL DEBT.

17. THE MANILA DECLARATION PROPOSED THE MULTILATERAL DEVELOPMENT INSTITUTIONS SHOULD MATCH OR EXCEED DEBT SERVICE RECEIPTS WITH NEW FLOWS OF PROGRAM AID. THE INITIAL PROPOSAL IMPLICITLY MADE ALL LDCs ELIGIBLE FOR THIS FORM OF RELIEF. IN SUBSEQUENT LDC ARGUMENTS AT CIEC, THE PROPOSAL WAS SUBSTANTIALLY ALTERED; MULTILATERAL DEVELOPMENT INSTITUTIONS WERE SIMPLY INVITED TO COMMIT NEW RESOURCES TO DEVELOPING COUNTRIES IN RESPONSE TO THEIR NEEDS. SEVERAL LDCs LIKELY REALIZED THAT THE MANILA PROPOSALS WOULD HAVE LOCKED THE VARIOUS MULTILATERAL LENDING INSTITUTIONS INTO A PATTERN OF FUTURE DISBURSEMENTS BASED ON PREVIOUS LOAN VOLUME. THUS, INDIA (\$3.7 BILLION), MEXICO (\$2.0 BILLION), AND BRAZIL (\$1.9 BILLION)--TOGETHER HOLDING ABOUT 38 PERCENT OF OUTSTANDING NON-OPEC LDC MULTILATERAL DEBT--WOULD HAVE BEEN GUARANTEED A SIZABLE FLOW OF FUTURE LOANS. TWO OF THESE NATIONS, MEXICO AND BRAZIL, HAVE USED PAST LOANS TO SPUR ECONOMIC GROWTH AND TO TRANSFORM THEMSELVES INTO SEMI-INDUSTRIALIZED COUNTRIES THAT NO LONGER QUALIFY FOR SOFT LOANS.

18. THE LDCs PROBABLY WILL NOT EXERT MUCH EFFORT ON THE MULTILATERAL DEBT ISSUE IN MARCH, PARTLY BECAUSE SERVICE ON INDIVIDUAL LDC ACCOUNTS RARELY EXCEEDS ONE-THIRD OF ANNUAL DEBT PAYMENTS; FOR MOST, IT IS BELOW 20 PERCENT. ALTHOUGH AT CIEC THE LDCs ABANDONED THE SPECIFICS OF THE MANILA DECLARATION, REFERENCES TO THE DECLARATION CONTINUE, AND IT WOULD NOT BE SURPRISING IF SOME LDC REPRESENTATIVES INDISCRIMINATELY CALL FOR ACCEPTANCE OF THESE DEMANDS WITHOUT FULLY REALIZING THE CONSEQUENCES.

#### PRIVATE DEBT.

19. THE MANILA DECLARATION DEMANDED THAT DEBTS OWED TO PRIVATE LENDERS BY "INTERESTED" LDCs SHOULD BE CONSOLIDATED, WITH THE PAYMENT SCHEDULES OVER 25 YEARS OR LONGER.

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NEW INTERNATIONAL AID INSTITUTION WOULD BE CREATED TO PROVIDE THE NECESSARY FUNDS FOR THIS EXERCISE. THE IMPLICATION IS THAT DEVELOPED COUNTRY GOVERNMENTS WOULD FINANCE THE NEW INSTITUTION AND THUS TAKE ON THE OBLIGATION OF ASSURING PAYMENTS TO THE PRIVATE SECTOR ACCORDING TO EXISTING TERMS.

20. THE TERM "INTERESTED" WAS SPECIFICALLY INCLUDED TO ALLOW BETTER OFF LDCS TO SUPPORT THE GROUP OF 77 PROPOSAL WHILE DISSOCIATING THEMSELVES FROM THE IMPLICATION THAT THEY NEEDED HELP. BRAZIL, MEXICO, URUGUAY, AND CHILE HAVE ALL TAKEN THIS TACK IN SUBSEQUENT PUBLIC STATEMENTS TO ENSURE THAT THE PROPOSAL DOES NOT TARNISH THEIR COMMERCIAL CREDIT RATINGS. NONETHELESS, IF THE SCHEME WERE ADOPTED, THESE COUNTRIES--AND EVEN THE OPEC COUNTRIES--WOULD SEEMINGLY BE ELIGIBLE FOR RELIEF.

21. RELIEF FROM PRIVATE DEBTS POTENTIALLY OFFERS THE MOST NEAR-TERM BENEFITS TO THE LDCS. LOANS FROM PRIVATE LENDERS NORMALLY HAVE HIGHER INTEREST RATES AND SHORTER MATURITY PERIODS THAN LOANS FROM BILATERAL OR MULTILATERAL SOURCES. ALL BUT A FEW LDCS HAVE MORE THAN ONE-THIRD OF THEIR DEBT SERVICE PAYMENTS GOING TO SERVICE PRIVATE DEBT. DESPITE THIS, THE LDCS APPEAR UNLIKELY TO PUSH PRIVATE DEBT RELIEF PROPOSALS AS HARD AS THOSE FOR BILATERAL RELIEF. BETTER OFF LDCS REMAIN GUN-SHY. AT THE OTHER END OF THE SPECTRUM, MANY OF THE POOREST LDCS HAVE--IN TERMS OF DOLLAR AMOUNTS--LITTLE PRIVATE DEBT. THEY ARE UNLIKELY TO PUSH HARD FOR GROUP OF 77 PROPOSALS IN THIS AREA BECAUSE IT COULD CHANNEL DEVELOPED COUNTRY RESOURCES AWAY FROM THE POOREST LDCS TOWARD THE MORE PROSPEROUS LDCS.

#### PROSPECTS.

22. THE DIFFICULTIES OF ORCHESTRATION ON BOTH SIDES OF DEBT DISCUSSIONS MAKE IT HARD TO FORETELL THE OUTCOME OF THE MARCH MINISTERIAL. OF COURSE, THE USUAL ACERBIC LANGUAGE CAN BE EXPECTED FROM SOME LDCS. WE ALSO SUSPECT THAT MUCH OF THE DISCUSSION WILL TAKE PLACE IN AN ATMOSPHERE DIVORCED FROM THE REAL WORLD, AS MANY LDC REPRESENTATIVES LIKELY WILL HAVE NO MORE THAN A CURSORY KNOWLEDGE OF THEIR COUNTRY'S DEBT SITUATION AND OF THE IMPACT OF SPECIFIC PROPOSALS ON THEIR ECONOMIES. OVER THE COURSE OF THE DISCUSSIONS, MANY AFRICAN COUNTRIES COULD COME TO REALIZE THAT THEY HAVE LITTLE TO GAIN FROM GROUP OF 77 PROPOSALS BECAUSE OF THEIR LIMITED FOREIGN INDEBTEDNESS. AS IN THE PAST, LDC BENEFICIARIES OF LARGE PRIVATE CREDITS WILL LIKELY

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HOLD BACK TO PROTECT THEIR CREDIT RATINGS. THE LDCS NEVERTHELESS WILL ADHERE TO GROUP TACTICS AND GROUP OF 77 SOLIDARITY; THEY BELIEVE THAT INDUSTRIAL COUNTRIES ARE UNPREPARED TO SUFFICIENTLY REWARD DEFECTORS AND THAT BLOC UNITY IS THE KEY TO ACHIEVING A NEW INTERNATIONAL ECONOMIC ORDER.

23. ON THE DEVELOPED COUNTRY SIDE, THE RECENT DEBT CANCELLATIONS BY FOUR DONOR COUNTRIES STEP UP PRESSURE ON THE OTHERS. MANY DEVELOPED COUNTRIES ALSO FEEL THAT THE TIME IS AT HAND TO MAKE SOME CONCESSIONS TO THE LDCS ON AN ISSUE OF MAJOR IMPORTANCE. LDC DIPLOMATIC MANEUVERING THUS COULD MAKE IT DIFFICULT TO MAINTAIN INDUSTRIAL COUNTRY UNITY ON A POSITION THAT SATISFIES BOTH THE MORE LIBERAL SCANDINAVIANS AND THE UNITED STATES.

24. ON BALANCE, THE MARCH MEETING--WHICH WILL TREAT SEVERAL OTHER TOPICS--PROMISES LITTLE OF LASTING VALUE ON THE DEBT ISSUE. THE WIDELY DIVERGENT POSITIONS ON BOTH SIDES RULE OUT MAJOR AGREEMENTS. EVEN AN IMPROVEMENT IN THE RULES FOR HANDLING DEBT CRISES ON A CASE-BY-CASE BASIS, AS PROPOSED BY THE UNITED STATES AND THE EC AT CIEC, SEEMS UNLIKELY. DEVELOPING COUNTRIES ARE NOT PUSHING FOR SUCH MEASURES, AND INDUSTRIAL COUNTRIES APPEAR UNLIKELY TO GRANT THEM UNILATERALLY. (CONFIDENTIAL)E1,2,3,IMPDET WNINTEL.>  
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REL CH,NFAC/CS [REDACTED] CL BY 015319.

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